EXECUTIVE SUMMARY

The U.S.-Oman free trade agreement (FTA) will grant immediate duty-free access for tariff lines covering almost all consumer and industrial goods and 87 percent of all agricultural tariff lines, eliminate nontariff barriers, and liberalize trade in services between the United States and Oman. Both countries will phase out all tariffs on the remaining eligible goods within 10 years.[1] The FTA contains provisions intended to expedite the movement of goods and the provision of services between the two countries and improve the regulatory climate for bilateral trade and investment.

Section 2104(f) of the Trade Act of 2002 requires that the U.S. International Trade Commission (Commission) submit a report to the President and the Congress not later than 90 calendar days after the President enters into the agreement,[2] assessing the likely impact of the agreement on the U.S. economy as a whole and on specific industry sectors.[3] The Commission's assessment of the U.S.-Oman FTA consists of quantitatively estimated effects of tariff elimination on trade in goods and qualitatively estimated effects of all FTA provisions, including those on trade in services, trade facilitation, and the regulatory environment. A summary of the key FTA provisions appears in table ES-1 at the end of this executive summary.

Summary of Findings on Market Access

The U.S.-Oman FTA will likely have a small but positive impact on the U.S. economy. The benefits will likely be moderated by the relatively small size of Oman's economy and Oman's share of U.S. trade; Oman accounted for less than 0.5 percent of total U.S. goods trade in 2004. The trade and welfare effects of tariff elimination on trade in goods will likely be negligible, reflecting not only the small volume of trade between the United States and Oman, but also the low tariffs on current bilateral trade.

Tariff liberalization under the FTA will likely have little effect on the U.S. economy, industry, and consumers because U.S. imports of most goods from Oman already enter duty-free or at low duty rates. Tariff liberalization will likely have the greatest effect on U.S.

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[1] The United States will phase out duties over 5 years for tariff lines covering certain fruits and vegetables and certain apparel products and textile articles (blankets, rugs, linens, curtains, and fabrics). U.S. tariff lines subject to 10-year staging cover certain textile and apparel articles (mainly wool goods), footwear, ceramic products, and television parts. See table 2-1 in chap. 2 of this report for further information on the tariff commitments of the United States and Oman under the FTA.

[2] On October 17, 2005, President Bush signed a letter notifying Congress of his intent to enter into the U.S.-Oman FTA. The United States and Oman signed the FTA on January 19, 2006. The FTA is part of the President's initiative to create a Middle East Free Trade Area by 2013; the United States has FTAs with Israel, Jordan, Morocco, and Bahrain (not yet implemented to date), and is negotiating an FTA with the United Arab Emirates.

[3] The Commission instituted this investigation in response to a letter of request from the United States Trade Representative dated October 19, 2005 (a copy of the letter is in app. A of this report; the Commission's notice of institution is in app. B).

imports of apparel from Oman,[4] albeit from a small and diminished 2005 base.[5] As such, the expected increase in U.S. apparel imports from Oman will be small in absolute value and quantity terms. In addition, the resulting increased annual level of U.S. apparel imports from Oman will likely remain below the 2004 level of U.S. apparel imports from Oman. Most of the expected growth in U.S. apparel imports from Oman will likely displace U.S. apparel imports from other countries, rather than domestic production.[6]

The FTA will likely increase export opportunities for U.S. firms when Oman immediately removes its uniform tariff of 5 percent ad valorem on U.S. goods and as it phases out its other tariffs on U.S. goods. The 5 percent tariff applied to 91 percent of U.S. exports to Oman in 2004; these exports consisted mostly of machinery, transportation equipment, and measuring instruments. The FTA also will likely increase opportunities for U.S. providers of services through improved market access and greater regulatory transparency.[7] For example, the FTA will liberalize provisions affecting trade in insurance services as well as banking and securities services such as asset management services.[8]

Summary of Findings Regarding Trade Facilitation and the Regulatory Environment

The FTA provisions on trade facilitation are designed to expedite the movement of goods and the provision of services between the United States and Oman through specific improvements with respect to transparency, technical barriers to trade, customs administration, sanitary and phytosanitary measures, and electronic commerce. The provisions on safeguards, government procurement, investment, intellectual property rights, labor, the environment, and dispute settlement are intended to improve the regulatory climate for bilateral trade and investment.

Although the economic effects of the FTA provisions on trade facilitation and the regulatory environment cannot be quantified, their overall effect on the U.S. economy and industry will likely be small, largely reflecting the relatively small size of Oman's economy.[9] Nevertheless, U.S.-based firms will likely benefit from the application of these FTA provisions by Oman, because the provisions are intended to promote improvements in regulatory transparency, reduce technical barriers to trade, and establish a secure, predictable legal framework for U.S. firms operating in Oman. The provisions on trade facilitation, for example, will likely expand export opportunities for U.S. firms, particularly for goods often

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[4] Apparel accounted for almost all the duties paid on U.S. goods imports from Oman in 2004.

[5] U.S. imports of apparel from Oman declined by 55 percent from January-September 2004 to January-September 2005 to a total of $47 million (c.i.f. value), representing less than 0.1 percent of total U.S. apparel imports. The decline in Oman's shipments reflected the increase in competition in the U.S. apparel market following the expiration of U.S. import quotas on textiles and apparel on January 1, 2005.

[6] Tariff liberalization effects for apparel are analyzed in chap. 2 of this report.

[7] The Minister of Commerce and Industry of Oman stated that the FTA will likely "provide new opportunities in areas such as banking, insurance, telecommunications, express delivery services and construction." See Maqbool Ali Sultan, Minister of Commerce and Industry, Sultanate of Oman, in prepared remarks for the Cato Institute Policy Forum, "Advancing Economic Freedom in the Middle East: The U.S.-Omani Free Trade Agreement," Washington, D.C., January 18, 2006.

[8] FTA provisions on services are analyzed in chap. 3 of this report.

[9] FTA provisions on trade facilitation and the regulatory environment are analyzed in chaps. 4 and 5 of this report.

subject to technical and regulatory standards and requirements such as food products and building materials. The FTA provisions on investment, though likely to have a small effect on the level of U.S. direct investment in Oman and the level of Oman's direct investment in the United States, will likely provide U.S. investors operating in Oman with greater opportunities as well as equal treatment with Omani investors.[10]

[10] The Minister of Commerce and Industry of Oman stated that there has been "an increase in U.S. corporate interest in Oman in the last few years," including involvement in tourism development projects located along Oman's shoreline. In addition, the Minister stated that Dow Chemical has teamed up with Oman Oil Co. to form the Petrochemical Industries Corp., a petrochemical complex that will serve as an anchor for the city port of Sohar, while Bechtel Corp. has signed a contract with Sohar Aluminum Co. to build a $2.2 billion smelter (see the Minister's prepared remarks for the Cato Institute Policy Forum).

Table ES-1
U.S.-Oman FTA: Summary of key provisions on market access, trade facilitation, and regulatory environment

Market access for trade in goods and services
Chapter 2 (market access for goods), chapter 3 (textiles and apparel), and chapter 4 (rules of origin) • Grants immediate duty-free access for tariff lines covering almost all consumer and industrial goods, including most apparel articles, and 87 percent of all tariff lines for agricultural goods that meet FTA rules of origin ("originating goods"); phases out duties on other originating goods over periods of 5 and 10 years. • Grants immediate duty-free access under tariff-rate quotas (TRQs) for specified quantities of Oman's exports of originating beef, dairy products, peanuts, sugar and sugar-containing products, cotton, and tobacco, with no limits on duty-free entry of these goods after 10 years. • Requires a "yarn-forward" rule of origin for most apparel to qualify for duty preferences; that is, the apparel must be assembled in an FTA party from inputs (yarn and fabric) made in an FTA party. • Includes an exception to the yarn-forward rule in the form of a tariff preference level that grants duty preferences to U.S. imports of cotton and manmade-fiber apparel made in Oman from third-country inputs during the first 10 years of the FTA, but not to exceed a total of 50 million square meters equivalent of apparel per year. ***Chapter 11 (cross-border trade in services), chapter 12 (financial services), and chapter 13 (telecommunications)*** • Provides national treatment and nondiscriminatory guarantees in most service sectors, guarantees market access in most service sectors, and improves regulatory transparency in Oman. • Enhances Oman's commitments under the WTO General Agreement on Trade in Services.
Trade facilitation
Chapter 5 (customs administration) • Improves transparency, efficiency, and predictability of customs regulations. • Provides special measures for express shipments. ***Chapter 6 (sanitary and phytosanitary measures)*** • Follows existing WTO Agreement on the Application of Sanitary and Phytosanitary Measures. • Allows for a bilateral joint committee to address relevant sanitary and phytosanitary issues. ***Chapter 7 (technical barriers to trade)*** • Builds and expands on the WTO Technical Barriers to Trade Agreement. • Encourages increased acceptance of one another's certification bodies and establishes informal mechanisms for rapid resolution of disputes. ***Chapter 14 (electronic commerce)*** • Provides nondiscriminatory treatment of digital products. • Parties agree to not impose customs duties on digital products. • Parties agree on a method of valuation for physically delivered digital products. ***Chapter 18 (transparency)*** • Requires each party to publish its laws and regulations governing trade and investment, and to publish proposed regulations in advance and provide an opportunity for public comment on them.
Regulatory environment
Chapter 8 (safeguards) • Provides a framework for procedures covering the application of safeguards. ***Chapter 9 (government procurement)*** • Provides nondiscriminatory treatment for covered government purchases in excess of agreed monetary thresholds. • Includes transparent disciplines on government procurement procedures. • Maintains criminal and other penalties for bribery in government procurement. ***Chapter 10 (investment)*** • Provides national treatment, most-favored-nation treatment, and nondiscriminatory treatment. • Includes a secure, predictable legal framework and an investor-state dispute settlement process. ***Chapter 15 (intellectual property rights)*** • Includes state-of-the art protection for copyrights, patents, trademarks, and trade secrets, and addresses Internet and digital piracy issues. • Strengthens enforcement measures and civil and criminal penalties for piracy and counterfeiting. ***Chapter 16 (labor) and chapter 17 (environment)*** • Parties agree to effectively enforce respective domestic labor and environmental laws. • Includes cooperative mechanisms for labor and environmental issues. ***Chapter 20 (dispute settlement)*** • Encourages the early identification and settlement of disputes through consultation.

Source: Compiled from the text of the U.S.-Oman FTA, available at *http://www.ustr.gov*.